

I support Senator Tutvedt's tax simplification bill because it is better than what we have now.

I favor replacing Montana property tax, individual income tax, and corporate income tax with a Federal Value Added Tax (VAT) that is distributed to states based on population.

American Manufacturing Trade Action Coalition (AMTAC) states<sup>i</sup> that in 2007 there was a \$474 billion dollar "border tax" disadvantage as a result of nearly every major U.S. trading partner having a VAT tax.

If a U.S. VAT tax was implemented creating the \$474 billion dollars referred to by AMTAC and distributed to states based on population, Montana's share would be \$1.5 billion. In 2013, the total revenue from Montana property tax, individual income tax and corporate income tax was less than \$1.5 billion.

#### VAT "border adjustment" and GATT

VAT "border adjustment" allocates tax to the country of destination. This is done by providing a credit for VAT tax on exports and imposing VAT tax on imports, this would result in taxing them at the same rate as goods produced in the country of destination making them more competitive with each other.

General Agreements of Tariffs and Trade (GATT) bans rebates of corporate income tax on exported goods. The United States agreed to a GATT loophole that allows credit for VAT tax on exports.

#### Tax gap and small business exemption

Generally, large businesses comply with VAT.

Generally, small businesses are exempt from VAT. If small businesses parts are used by a large business in manufacture of a product, the large business pays VAT on the value of small business parts.

#### Regressive tax elimination

Since VAT is distributed to states, the federal individual income tax would remain. Federal income tax includes an earned income credit that is used to provide refundable credits to individuals with low income. VAT's elimination of "border tax disadvantage" would result in big businesses returning to the United States with high paying manufacturing jobs. The influx of high paying jobs would reduce the need for earned income credit.

Generally state taxes include property taxes, sales taxes, and flat income taxes. All of these taxes are regressive and could be reduced or eliminated with the VAT tax distribution to the states.

Montana property tax is especially harsh. Property tax relief is available for low income taxpayers but many low income taxpayers do not receive the tax relief because they do not know how to apply for relief. This results in many low income taxpayers having their homes sold for back taxes.

Montana income tax has much lower standard deductions and exemptions than the federal government and other states with income taxes.

#### Federal budget deficit and national debt

VAT's elimination of "border tax disadvantage" would result in big businesses returning to the United States resulting in increase in revenue for the federal government and increase in gross domestic product (GDP). The budget would be easier to balance and the national debt would decrease in size as compared to GDP.

#### Immigration

VAT's elimination of "border tax disadvantage" would result in big businesses returning to the United States resulting in increase in need for immigrants to join the labor force.

#### Social insurance solvency

VAT's elimination of "border tax disadvantage" would result in big businesses returning to the United States resulting in increase in the labor force resulting in the collection of more social insurance taxes.

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<sup>i</sup> [http://otrans.3cdn.net/96f405cb244cb4276c\\_t7m6bfh21.pdf](http://otrans.3cdn.net/96f405cb244cb4276c_t7m6bfh21.pdf) December 4, 2008 AMTAC USTR Transition Recommendations